

State of South Carolina
Before the
South Carolina Public Service Commission

RE: Application of Aqua South)
Carolina for Approval of a New)
Schedule of Rates and Charges) Docket No. 2009-12-S
for Sewerage Services Provided to)
Customers in Spartanburg County)

Direct Testimony

of

Brian P. Devine

On Behalf of

Aqua South Carolina

April 2, 2009

1 **BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

2 **AQUA SOUTH CAROLINA, INC.**

3 **DIRECT TESTIMONY OF BRIAN P. DEVINE**

4 **DOCKET NO. 2009-12-S**

5 **APRIL 2, 2009**

6 **Q. Please state your name and business address.**

7 A. My name is Brian P. Devine. My business address is 762 W. Lancaster Avenue,
8 Bryn Mawr, PA.

9 **Q. By whom are you employed and what is your position?**

10 A. I am employed by Aqua America, Inc. as a Rate Analyst.

11 **Q. Please describe your educational background and professional experience.**

12 A. I graduated from Villanova University with a Bachelor of Science Degree in
13 Finance. I have been employed with Aqua America since 2003, at which time I
14 joined the company as a Continuing Property Records Accountant and now hold
15 the position of Rates Analyst. My prior experience as a rates analyst includes rate
16 case filings in the states of Pennsylvania, Florida, Virginia and North Carolina in
17 the areas of billing analysis, operating and maintenance expenses and regulatory
18 assets.

19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. The purpose of my testimony is to sponsor the application filed by Aqua for an
21 adjustment of existing sewer rates and to explain the information provided in the
22 application.

1 **Q. Please explain why Aqua South Carolina, Inc. (“Aqua”) has filed the rate**
2 **application?**

3 A. Aqua America formerly known as Philadelphia Suburban Corporation acquired
4 the existing wastewater collection system in the Brookside Subdivision as part of
5 an acquisition of AquaSource Utility, Inc. Since acquiring the system the cost of
6 wastewater treatment has increased steadily. Aqua has also made capital
7 improvements and incurred the costs of maintaining the system which has totaled
8 over \$125,000. The current rates were established in February 1996 and do not
9 adequately cover the financial obligations of operating the system.

10 Aqua has the responsibility to their customers and various regulatory
11 agencies to maintain the financial integrity of the company. The rates contained
12 in our application will allow Aqua to maintain the system in a satisfactory manner
13 and will mitigate the obligation of Aqua’s shareholders to subsidize the
14 wastewater operations. The level of financial loss contained in our application
15 demonstrates the need for the rate relief requested.

16 **Q. Please describe the Aqua’s application?**

17 A. The application contains a proposed rate schedule, financial statements consisting
18 of a balance sheet, income statements, an asset and depreciation schedule, revenue
19 calculations under current rates and purposed rates in the application. Also
20 included is the most recent approval letter from the South Carolina Department of
21 Health and Environmental Control and a sample customer bill form.

22 **Q. Please summarize the rate changes as proposed in the Company's**
23 **application.**

1 A. As reflected in its application, the Company proposes to increase the monthly flat
2 rate charge for sewer service from \$20.50 to \$42.73.

3 **Q. What is contained in the Financial Statements?**

4 A. The test year chosen by the Company is the year ended June 30, 2008. This was
5 the most recent twelve month period for which full data was available when the
6 rate application process began. Schedule B is the Balance Sheet as of June 30,
7 2008. At the end of the test year, Aqua had assets of approximately \$124,656.
8 Schedule C is the Income Statement for the test year which shows the Company
9 earned on a per book basis a (42.76%) operating margin and experienced a net
10 loss of (\$42,456). Schedule D details the comparative income and expenses for
11 the test year and the prior period. Schedule E details the current and proposed
12 revenue.

13 **Q. Would you provide a brief explanation of the more significant pro-forma**
14 **adjustments included in Schedule C?**

15 A. The increase in sewage treatment costs from \$.3610 per 100 gallons treated to
16 \$.3957 per 100 gallons treated which went into effect August 2008 were factored
17 into the pro-forma test year. While preparing the application, it was discovered
18 the treated gallons report from Spartanburg Sanitary Sewer District contained
19 more gallons treated than the actual gallons treated. This issue was resolved and
20 the extra gallons that were charged in the test year were factored out in the pro-
21 forma test year. Other costs which were incurred during the test year and removed
22 in the pro-forma test year were costs related to expensing the regulatory asset

1 related to costs from a rate application which wasn't filed and costs related
2 exploring possible acquisition opportunities in South Carolina.

3 **Q. What ratemaking methodology does the Company propose the Commission**
4 **employ in this case?**

5 A. The Company proposes that its rates be determined utilizing operating margin
6 methodology. The operating margin proposed by the Company is 15%. This
7 proposed operating margin allows the Company to move closer to being on sound
8 financial footing by employing a fair and reasonable flat rate charge to customers.

9 **Q. Does this conclude your direct testimony?**

10 A. Yes, it does.